

JEC Hearing Wrap – The Economic Outlook
Testimony by Christina D. Romer, Chair, Council of Economic Advisers
April 30, 2009

Congresswoman Carolyn Maloney, Chair of the Joint Economic Committee began the hearing by noting that “A few glimmers of hope have surfaced in the economy in recent weeks as consumer confidence jumped last month and credit markets have begun to thaw. But yesterday’s report that GDP fell at an annual rate of 6.1 percent in the first quarter and the huge job losses over the past five months are vivid reminders of the hangover from the Bush administration that we still have to shake.”

Christina Romer, Chair of the Council of Economic Advisers, began her testimony with a look back at the origins of the current crisis and by painting a picture of just how bad it has been. One jaw dropping measure of the economic pain that has been felt in households across the country is that “household wealth has fallen by \$13 trillion, or 20 percent, since its peak”. Housing prices, as measured by the Case-Schiller index, have fallen by 27 percent since July 2007. Stock prices have fallen by roughly half. The unemployment rate has shot up to 8.5 percent and 5.1 million jobs have disappeared.

But the defining feature of this recession has been the drying up of credit. The Fed estimates that net lending to nonfinancial businesses has fallen to a level that is one-seventh of its peak level.

In response to a question about how close we really came to a total financial meltdown last fall, Ms. Romer said “I do think we were on the verge of financial collapse.” Ms. Romer, who has extensively studied the Great Depression, said that “we could have seen just an incredible meltdown.”

Ms. Romer then described the multi-faceted plan – fiscal stimulus, financial stabilization, and the housing plan – that the administration, working closely with Congress, has fashioned to “cushion the downturn, bring about recovery, and make the economy stronger and more secure in the long run.”

Ms. Romer said: “We currently expect that the pace of the overall decline in the economy to moderate sharply over the next several months.”

Ms. Romer said she believes that the reason we are stable now is because we have taken these actions over the past 100 days and concluded by saying: “our intent, and our expectation, is for the economy not just to recover, but to emerge even stronger and more resilient than before.”